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SUBJECT: WAY FORWARD ON BASRAH CHILDREN'S HOSPITAL

Classified By: Ambassador Zalmay Khalilzad for reason 1.4 (d).

¶1. (C) SUMMARY: As a way forward on the Basrah Children's Hospital (BCH), Mission recommends descoping the Bechtel construction job order; transferring construction program management to the Gulf Region Division (GRD) of the U.S. Army Corps of Engineers (USACE) with JCC-I/A contracting assistance; and having USAID continue to sponsor this project, including coordinating equipment integration and donors. This solution would involve reprogramming \$72.38 million to complete hospital construction and provide for equipment, commissioning, and initial operating costs. Included in this amount is \$5 million in further contract allowances on the current Bechtel contract. IRMO has identified \$39 million that could be reprogrammed to this project from Iraq Relief and Reconstruction Fund (IRRF) monies, and USAID has identified \$11 million from non-IRRF funds that may be available. Embassy believes that adopting this strategy is contingent on identifying the remaining funds and securing Congressional approval to obligate them in time to meet the IRRF legal obligation deadline of September 30, 2006. END SUMMARY.

¶2. (C) It now appears that the contractor (Bechtel) will only be able to complete about 35 percent of the BCH project for the \$50 million allocated to it. USAID/Iraq reported the shortage of available funds in an April 2006 report to IRMO. Embassy Baghdad subsequently directed USAID to issue a stop-work order to the contractor and implement a preserve and protect plan. A report on the BCH project by the Special Inspector General for Iraq Reconstruction (SIGIR) will be released soon.

CAUSES OF THE CURRENT SITUATION

¶3. (C) The primary factor leading to the need for more funds to finish this project is a change in how overhead costs were attributed to this project. Prior to April 2006, USAID attributed only direct costs to this project, with overhead costs charged to the much larger overall Bechtel contract. In April, at IRMO's urging, USAID agreed that it was more appropriate to include both direct construction and program indirect costs to the BCH project, which raised the total amount attributable to BCH significantly (cost-to-complete rose from approximately \$50M to \$98M.) Costs for BCH also rose because security conditions hampered construction and limited the oversight by Bechtel and USAID. In addition, site preparation took longer than anticipated and was more expensive due to difficult soil characteristics. The USG originally had approached reconstruction through design/build contracts with large U.S. or international firms; however, these contracts lacked incentives necessary to minimize cost increases and delays.

SMALLER HOSPITAL NOT A VIABLE OPTION

14. (C) Based on a review of the USAID-funded assessment report completed by the Louis Berger Group (LBG) and of GRD construction estimates, Mission believes that \$72.38 million will be required to complete construction and provide for equipment, commissioning, and initial operating costs. Mission also believes that the option of walking away from the project is not an acceptable outcome. Abandoning a high-profile project in the troubled Basrah region, which is a top priority for the Prime Minister, would entail unacceptable political costs to our effort to bring security and stability to Iraq. Turning the hospital project over to the GOI in its current state would hand those who oppose our efforts here a significant public relations windfall and damage the credibility of the U.S. commitment to the Iraqi people.

15. (C) The BCH project is a priority for the GOI, which provided the land for the hospital site and has told Embassy that it will fund sustainment costs and provide staffing. The option of opening a smaller facility with limited services was strongly rejected by the Iraqi Ministry of Health and was not recommended by the LBG assessment team. Furthermore, reducing the size of the hospital would require substantial engineering redesign (including of utilities systems), which would minimize cost and time savings that could be achieved. Both Basrah and national health officials perceive a high need for a pediatric facility in southern Iraq, in particular one with specialized oncology capabilities.

WAY AHEAD

16. (C) On June 28, the Ambassador met with IRMO Director, Commander of USACE GRD, and Acting USAID Mission Director to develop a consensus on the way ahead for BCH. The Political Section also was consulted. The Mission recommends having GRD take over construction program management, with JCC-I/A assistance in contracting. USAID/Baghdad is already in the process of de-scoping the Bechtel contract. Mission proposes that USAID continue to sponsor this project, including working with Project Hope and coordinating with GRD on equipment supply and integration as well as working with other potential private and public sector donors. IRMO will continue to work with the BCH project implementers, GRD and USAID.

17. (C) Mission recommends that funding of \$72.38 million be made available to complete remaining construction and provide for equipment, commissioning, and initial operating costs not provided by Project HOPE. GRD, USAID, and IRMO believe that they can complete construction of the hospital for this amount. \$72.38 million is above the amount recommended by the LBG report; however, experience dictates the need for adequate contingencies for this project. IRMO has identified \$39 million that could be reprogrammed to this project IRRF monies, and USAID has identified \$11 million from non-IRRF funds that may be available. Embassy believes that adopting this strategy is contingent on identifying the remaining funds and securing Congressional approval to obligate them in time to meet the IRRF legal obligation deadline of September 30, 2006. It is critical that we not over-promise and under-deliver again on this project; we need to be prudent in allowing adequate contingency funds.

BREAKDOWN OF COST ESTIMATES

18. (C) GRD has developed a construction cost estimate. Construction cost breakdown is as follows for \$60 million:

-- \$16M to finish the structure (to include potential

concrete repair of suspended slab)
-- \$19M to finish the mechanical building, infrastructure and other flat work
-- \$3.5M for sub-contractor efficiency loss
-- \$3.5M demobilization/remobilization
-- \$7M for 20 percent contingencies
-- \$2.8M for S&A
-- \$5M for contractor/GRD on-site facility/security (based on past GRD projects)
-- \$3.2M for further security costs, delays, and other contingencies.

¶9. (C) Based on the above and given the difficult security environment at the construction site (past experience of not being able to visit the site for 5 months), Mission believes that \$60 million -- including \$10.2 million for further security costs, delays, and other contingencies -- is required for construction.

¶10. (C) Mission estimates \$7.38M is needed for equipment and initial operating costs of the hospital, broken down as follows:

-- \$2.53M for unfunded equipment and hospital supplies
-- \$1.55M for medical and IT systems integration
-- \$1.5M for equipment service contracts
-- \$0.6M for MOH consumable supplies
-- \$1.2M for contingency (in the event that Project HOPE or other donors will not support transport or installation costs or training for the local staff, as well as security for the transport, installation or training programs)

¶11. (C) Mission must allow for further contract costs with Bechtel. Based on estimates by AID and Bechtel, \$5 million is estimated for these allowances.

TIMELINE FOR ACTION

¶12. (C) If we use reprogrammed funds, as Mission recommends, time is tight to get IRRF funds obligated by the end of the fiscal year. We will need to submit a Congressional Notification immediately.

¶13. (C) In proposing to make \$72.38 million available, Mission is only supporting finishing the construction of the building and providing the basic furnishings needed. Project HOPE will have to meet all of its obligations on its own, as there will be no USG money available to fund items such as shipping of equipment or equipment integration. In proceeding with this plan, Mission also will do everything possible to accelerate the completion of the basic structure.

¶14. (C) While options are considered and pursued, the Mission will put BCH in caretaker status, maintaining site security.
SATTERFIELD